

September 18, 2020

The Honorable Terry Canales, Chair  
The Honorable Brooks Landgraf, Vice Chair  
Committee Members  
House Committee on Transportation  
Capitol Building, Room E2.122  
Austin, Texas 78701

Dear Chair Canales, Vice Chair Landgraf and Members of the Transportation Committee:

The Transportation Committee requested information pertaining to Interim Charge 1B. Enclosed are actual and projected collections for sources of State Highway Fund (SHF) Revenue for 2018-2021 and borrowing capacity for the Texas Mobility Fund.

### State Highway Fund

Table 1 shows actual collections for sources of SHF revenue from fiscal 2018 through fiscal 2020, with projections for fiscal 2021 from the [Certification Revenue Estimate](#) (CRE) published in July 2020. The timing of Proposition 7 sales tax allocations to the SHF causes fluctuations in actual and projected total state revenue for the SHF. The first \$2.5 billion in annual sales tax revenue in excess of \$28 billion is allocated to the SHF. Those transfers occur in the month following the collection month. In fiscal 2018, state sales tax revenue through July exceeded that threshold by nearly \$940 million and that amount was allocated to the SHF in August. The remaining \$1.56 billion was collected in August that year and transferred to the SHF in September, the first month of fiscal 2019. Fiscal 2019 state sales collections were sufficient through the end of July such that the entire \$2.5 billion was transferred by the end of August, which when added to the \$1.56 billion transferred in the first month of the fiscal year, meant that total sales tax allocations to the SHF in fiscal 2019 exceeded \$4 billion. Fiscal 2020 transfers totaled \$2.5 billion, but the July 2020 CRE projects that collections in fiscal 2021 will be sufficient through the end of July for just \$1.15 billion to be transferred in August, with the remaining \$1.35 allocated in September, the first month of fiscal 2022.

An additional source of volatility in state revenue for the SHF is the annual Proposition 1 allocation of severance taxes, the most unpredictable and variable source of Texas state tax revenue. The allocation in fiscal 2018, based on oil and natural gas production taxes in fiscal 2017, was \$734 million. That increased by nearly 90 percent to \$1.38 billion in fiscal 2019 and by another 20 percent in fiscal 2020 to \$1.67 billion. As a result of a collapse in oil prices during fiscal 2020 and a subsequent drop in production, severance tax collections were down substantially in fiscal 2020 compared to fiscal 2019; consequently, the fiscal 2021 allocation of severance taxes to the SHF will be down more than 30 percent from the fiscal 2020 allocation. Based on the July CRE's forecast of fiscal 2021 oil and natural gas production tax collections, the SHF allocation for fiscal 2022 is expected to fall further, to just \$620 million.

Estimates for fiscal 2021 will be updated and projections for the 2022-23 biennium will be provided in the *Biennial Revenue Estimate* in January 2021, ahead of the 87th Legislature, Regular Session.



We appreciate the opportunity to provide this information to the committee. Please do not hesitate to contact us if you need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Glenn Hegar". The signature is fluid and cursive, with the first name "Glenn" written in a more compact, stylized manner and the last name "Hegar" written in a more open, cursive style.

Glenn Hegar



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Table 1					
Sources of State Highway Fund Revenue					
Thousands of Dollars					
Object		ACTUAL COLLECTIONS FY 2018-2020			ESTIMATED *
Code	Description	2018	2019	2020	2021
<b>State Revenue</b>					
3010	Motor Fuel Lubricants Sales Tax	42,568	43,200	\$ 38,000	\$ 37,000
3014	Motor Vehicle Registration Fees	1,518,490	1,551,693	1,455,426	1,643,275
3018	Special Vehicle Permits Fees	122,951	137,009	120,386	128,588
3752	Sale of Publications/Advertising	5,050	4,917	4,590	5,243
3767	Supplies/Equipment/Services--Federal/Other	21,386	22,692	15,979	40,000
3851	Interest on State Deposits/Investments - General, Non-Program	58,155	125,151	115,893	22,159
3901	Motor Fuel Taxes Allocation	2,694,293	2,734,711	2,610,932	2,510,696
3969	Severance Taxes Allocation (Prop 1)	734,418	1,384,115	1,665,321	1,133,688
3925	Sales Taxes Allocation (Prop 7)	939,191	4,060,809	2,500,000	1,151,717 **
	Other Revenue	112,671	169,165	272,239	131,130
	<b>Total State Revenue</b>	<b>\$ 6,249,174</b>	<b>\$ 10,233,462</b>	<b>\$ 8,798,766</b>	<b>\$ 6,767,944</b>
<b>Federal Income</b>					
3001	Federal Receipts Matched--Transportation Programs	\$ 3,828,213	\$ 3,967,418	\$ 5,182,182	\$ 5,097,456
3701	Federal Receipts Not Matched--Other Programs	0	0	0	0
	<b>Total Federal Income</b>	<b>\$ 3,828,213</b>	<b>\$ 3,967,418</b>	<b>\$ 5,182,182</b>	<b>\$ 5,097,456</b>
	<b>Total State Highway Fund Revenue</b>	<b>\$ 10,077,386</b>	<b>\$ 14,200,879</b>	<b>\$ 13,980,948</b>	<b>\$ 11,865,400</b>

\* Based on the July 2020 Revised 2020-21 Certification Revenue Estimate, except for the severance taxes allocation, which reflects the actual amount to be allocated this year.

\*\* Based on the July CRE estimate, \$1.348 billion from 2021 sales tax collections will be transferred to the State Highway Fund in September 2021, which falls in fiscal 2022.

## Texas Mobility Fund

Table 2 shows total borrowing capacity for the Texas Mobility Fund, which fell from \$432 million in fiscal 2019 to \$408 million in fiscal 2020 but is projected to increase to nearly \$492 million in fiscal 2021. The drop in fiscal 2020 and subsequent large increase in fiscal 2021 is attributable to collections from certain revenue streams, such as driver licenses and vehicle inspections that would have been collected in fiscal 2020 but due to COVID-19 will instead be collected in fiscal 2021.

Table 2		
Texas Mobility Fund Borrowing Capacity		
Thousands of Dollars		
Fiscal Year	Total Borrowing Capacity	
2018	\$ 425,438	
2019	\$ 431,553	
2020	\$ 408,348	
2021	\$ 491,736	*

\* Based on the July 2020 Revised 2020-21 Certification Revenue Estimate.



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